

~~CONFIDENTIAL~~MEXICO'S TRADE

Mexico has the potential of becoming a major trading nation. Its growing population and oil revenues would indicate a long-term growth in import demand. On the export side, Mexico's comparative advantage seems to lie in production of manufactured goods based on local primary materials, and in those products for the U.S. market which require substantial labor inputs and moderate transport costs to remain competitive. Examples are assembly products made from imported components, metal products, motor vehicle parts, electronic components and wearing apparel. Mexico encourages exports through a number of incentive programs.

However, Mexico's success as an exporter will continue to be hampered by transportation and raw material bottlenecks, as well as by shortages of skilled labor. Protectionist pressures in the U.S. will not help. At the same time, the financial constraints imposed by declining oil revenues coupled with Mexico's protectionist practices have resulted in a dramatic decline in imports.

Nevertheless, trade remains a significant element in the structure of the Mexican economy. In 1982, Mexico's two-way trade reached \$35.4 billion. Oil exports alone were about nine percent of Mexico's 1982 GDP, and, as Mexico's principal export, accounted for roughly three-fourths of Mexico's \$21 billion export earnings. Mexico also exports significant quantities of cotton, coffee, fruits and vegetables, minerals, and light manufactures. On the import side, Mexico is dependent on trade for a large percentage of its foodstuffs, machinery, and industrial equipment. Over 80 percent of these come from the United States.

The U.S. is Mexico's principal trading partner, the destination and source for over three-fourths of Mexico's trade with the world. The EC and Japan rank a distant second and third. In 1982, the United States purchased \$16 billion in Mexican products, 74 percent of Mexico's exports, including almost one-half of its oil exports. The U.S., in turn, supplied 82 percent of Mexico's imports. Mexico is our third largest trading partner, after Canada and Japan, and also the third largest market for U.S. agricultural products.

From 1970 to 1980, U.S. trade with Mexico grew at an impressive annual rate of over 25 percent, with U.S. imports from Mexico growing slightly faster than U.S. exports to Mexico. In 1981, the impressive trade growth continued as

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U.S.-Mexico trade jumped by almost 50 percent. But, in 1982, the picture changed dramatically. Mexico tightened its belt drastically, and imports from the U.S. fell by an unprecedented \$6 billion dollars, a 34 percent decline from 1981. The U.S. ran a trade deficit with Mexico of close to \$4 billion in 1982, compared to a surplus of the same magnitude in 1981. We expect U.S. exports to Mexico in 1983 to be \$9.5 billion or 13 percent below their 1982 level.

U.S.-Mexican Merchandise Trade*
(Million of Dollars)

	<u>U.S. Exports</u>	<u>U.S. Imports</u>	<u>Two-Way Trade</u>	<u>Balance</u>
1980	14,855	12,520	27,405	+2,365
1981	17,360	13,765	31,125	+3,595
1982	11,104	15,566	26,670	-4,462
<u>1983</u>				
Jan	627	1,286	1,913	-659
Feb	712	1,195	1,907	-483
Mar	747	1,329	2,076	-582
Apr	681	1,346	2,027	-665
May	826	1,696	2,522	-870
To Date	3,593	6,851	10,445	-3,259
<u>1982</u>				
Jan-May	5,993	5,935	11,928	+58

* Excludes 806,807 trade (offshore assembly operations).

Source: U.S. Department of Commerce FT 900.

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